



ACCOUNTING

Flight Plans

Recognizing and accounting for different types of PILOTs

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Tucked among the 21 proposed questions and answers (Q&A) in the Governmental Accounting Standard Board (GASB) exposure draft, *Implementation Guidance Update—2025*, is a proposed clarification about whether payments in lieu of taxes (PILOTs) represent subsidies.¹ Subsidies are defined and distinguished in proprietary fund and stand-alone business-type activities financial statements in accordance with guidance in GASB Statement No. 103, *Financial Reporting Model Improvements*.² Like so many questions about accounting, the answer is (drum roll...): “It depends.”

Property taxes make up a significant portion of the revenue available to many local governments and are used to pay for general governmental operations that provide essential public services. Many times, real property within a government’s boundaries is owned by other governments and not-for-profit organizations (for example, federal park land, churches)

and is therefore exempt from property tax. In some cases, PILOTs are paid by the owner or user of tax-exempt properties to governments to replace some or all the “lost” property tax revenue, such as in the case of PILOT payments made by the U.S. Department of the Interior to local governments in whose boundaries there are national parks and other federally administered lands. Business-type operations of a local government itself, or of its component units, are also tax exempt but may pay PILOTs to a government’s general fund for the same purpose. Additionally, economic development tax incentive programs may abate certain for-profit entities from property taxes and impose a PILOT—usually at levels well below property tax rates—instead.

During GFOA accounting training, it’s not uncommon for us to receive questions about how to account for PILOTs. But to answer those questions, we need to know a good bit about the specific PILOT arrangements. The

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correct accounting and financial reporting for PILOTs is completely dependent on the facts and circumstances (such as, on the substance of the payment rather than the legal form and the attachment of the PILOT label). PILOTs can be exchange or exchange-like payments for specific, identified services provided and/or used, or they can be non-exchange payments like the property tax revenues they frequently replace. Most often, the method of calculating the amount of the PILOT payments will be the best indicator of the substance of the transaction.

Let's start by looking at PILOT payments that represent payments for services provided. If PILOTs are exchanged within a primary government reporting unit (including blended component units but not discretely presented component units), and the amount is based specifically on the cost of services provided, the PILOT payment is for an interfund service provided and used. If a power utility enterprise fund of a county pays PILOT to the county's general fund based on the cost of services provided to the utility (such as legal, accounting, and vehicle maintenance services paid for by the county through its general fund), the general fund will recognize the PILOT payment received as interfund revenue, and the enterprise fund (utility) will recognize an interfund expense. These are referred to as interfund services provided and used, to distinguish these exchange or exchange-like PILOT transactions from transfers made simply to move resources between funds and activities.

If the utility was a discretely presented component unit (or even an entity outside the government's financial reporting entity) instead of being a fund of the primary government, and the PILOT is also based on specific costs incurred, the PILOT would be an (external) exchange revenue such as a charge for service to the receiving government.

Now let's think about PILOT payments where the amounts are not based on any actual or estimated costs of providing specific services. Some PILOTs are calculated using a base and rate, much in the way a property tax is calculated for a taxable property. Those formulas may or may not be explicitly related to (for example, a percentage of) the government's taxable values or rates. There are many other possible PILOT formulas such as those payments by the U.S. Department of the Interior mentioned above, which are based on factors like population and the amount of federal land within a jurisdiction.³ As the dollar amounts of these PILOTs are not driven directly by the cost of specific services provided to the payors—be they funds, discretely presented component units, or external entities—the amounts received or paid are non-exchange revenues and/or expenses. These types of PILOTs, if paid between funds in the primary government reporting unit, are transfers. If non-exchange PILOTs are received from parties external to the government's financial reporting entity, they are accounted for in accordance with guidance for non-exchange revenues.⁴

Circling back to the Q&A in the ED, the answer (after “It depends”) goes on to make the distinction between exchange and exchange-like PILOTs and non-exchange PILOTs. It then explains that non-exchange PILOTs from an enterprise fund to a general fund will meet the GASB 103 definition of a subsidy payment, which is “Resources provided to another party or fund (1) for which the other party or fund does not provide goods and services to the proprietary fund and (2) that are recoverable through the proprietary fund's current or future pricing policies.”

To know the accounting and financial reporting “destination” for PILOTs we must know their purpose and structure “point of origination.” Just one more instance where a thorough understanding of the substance of a transaction or other event is essential for a smooth landing. ■

¹ ED Q&A/ paragraph #4.8.

² See the October 2024 *GFR* article, *Getting a Makeover*, for a thorough discussion of GASB 103.

³ *Payments in Lieu of Taxes*, U.S. Department of the Interior, February 26, 2025, doi.gov/pilt.

⁴ GASB Codification of Accounting Standards, N50, Nonexchange transactions.



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